

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS HARARE 001420

SIPDIS

STATE FOR AF/S  
USDOC FOR AMANDA HILLIGAS  
TREASURY FOR OREN WYCHE-SHAW  
PASS USTR FLORIZELLE LISER  
STATE PASS USAID FOR MARJORIE COPSON

1E. O. 12958: N/A  
TAGS: [ECON](#) [ETRD](#) [EINV](#) [PGOV](#) [ZI](#)  
SUBJECT: Banks eye parallel market

1. Summary: In spite of the GOZ's strong-armed efforts to enforce a fixed (auction) rate, local businesses tell us parallel currency trading is becoming more widespread. NMB now discreetly offers its best customers access to the parallel market. End summary.

Zimdollar expensive at any rate  
-----

2. Business-to-business weekend trading generally took place within a Z\$7,800-8,500/US\$ band. Because the parallel exchange is still covert and untransparent, many traders offered unwitting smaller clients as little as Z\$6,200/US\$. Although the higher-end parallel exchange nets about 40 percent more than the official rate, it still overvalues the zimdollar by any historic purchasing parity measure. Inflation, for example, has registered 360 percent since August 2003, while today's rate is nearly identical to that of one year ago (Z\$5600:US\$ on Aug 22, 2003 vs. Z\$5602:US\$ at last Thursday's auction). Zimbabwe has become an expensive place to do business, so much so that Coca-Cola now considers Johannesburg a cheaper venue. As a cost-cutting measure, the firm is relocating its top Zimbabwean executives from depressed Harare to the southern African business hub.

3. GOZ enforcement requires parallel traders to adopt extreme precautions. We have seen traders rely on multiple levels of intermediaries; we have heard them speak in code over phone lines. Finance Minister Chris Kuruneru remains behind bars, however, as a grim but symbolic deterrent to parallel trading and foreign exchange externalization. We understand repeat-offender NMB has again begun to tempt its best customers with parallel exchange rates, the first commercial bank to do so since January.

Comment  
-----

4. Reserve Bank (RBZ) Governor Gideon Gono vilifies parallel traders as economic saboteurs. Actually, they enhance his potency. Since most prices for goods and services reflect the parallel exchange, Gono can offer select importers amplified profit margins by granting them discounted access to foreign exchange at the official rate. (The RBZ formally dismisses most unsuccessful forex applications with a single word - "cause." There is no further explanation.) In effect, Gono has created a subsidy for privileged importers through an indirect exporter tax.

Sullivan